

EASTERN WORLD

SUPPLEMENT

Aspects of Japanese Commerce



JAPAN OFFERS COOPERATION

A Message to EASTERN WORLD from

Tadashi Adachi

(President, Japan Chamber of Commerce and Industry, Tokyo)

IT is very significant and also very gratifying for us Japanese people that the EASTERN WORLD has decided to issue a special Japan number in order to

diffuse a better understanding of Japan among its readers in the United Kingdom and in other countries of the world. I am grateful to the EASTERN WORLD for giving me this opportunity of expressing my views.

Since World War II Japan has been making efforts for her reconstruction economically, culturally, and in all other aspects. As a result, she was admitted last year into the United Nations. This has enabled her to cooperate with the UN for achieving its objectives as a member of the international community in collaboration with all other countries of the world thanks to their deep understanding and support.

At present Japan is supporting a population of ninety million in a small country of 370,000 square kilometres with little natural resources. We are exerting ourselves to the utmost in order to improve our living conditions.

Under the influence of the prosperity of world economy, the economy of Japan achieved a rapid increase in her exports in 1955 and 1956. Strengthened further by the increase in the invisible income called special procurements, the international balance of payments came to show an excess of receipts. Along with these increases came also a very rapid expansion of the domestic economy. Namely, 1956 showed in comparison with 1955 increases of 14 percent in national income, of 23 percent in mining and industrial production, of 24 percent in export (the total export amounted to 2.5 billion dollars), of 31 percent in import (the total import amounted to 3.2 billion dollars), and of as much as 80 percent in private investments. All of these were the results of the energetic effort of the Japanese people.

As the expansion of economy was too rapid, however, the year 1957 brought about an explosive increase in the import of raw and other materials such as raw materials for iron and steel, coal, petroleum, non-ferrous metals, etc. On account of this the red figures of the trade balance from

January up to August amounted to \$730 million. Even when the excess of receipts in the invisible trade is taken into account, the balance of international payments ended in a deficit of as much as \$570 million. This caused a rapid deterioration in Japan's foreign exchange situation, which necessitated the adoption of various tight-money measures aimed at the restraining of consumption and investment. For this reason Japan is faced now with a temporary economic difficulty.

The government and the business circles of Japan are closely cooperating with each other in making great efforts to overcome the difficulty caused by the present imbalance in international payments, and to revive the steps toward a stable expansion of Japanese economy. It goes without saying that the recovering of the balance in foreign trade constitutes the fundamental target of these efforts.

Turning to the trade relations between the United Kingdom and Japan, we see that in 1956 the exports from the UK to Japan amounted to \$66 million while the imports from Japan into the UK totalled \$63 million. This means an excess of imports for Japan, but it is gratifying in this connection that the new trade agreement between the UK and Japan, concluded in February 1957, has created the possibility of a balanced increase in trade transactions between the two countries.

As will be clear from the above, Japan has to depend upon foreign trade for her existence. Hence her constant efforts for the expansion of foreign trade in general and export trade in particular. An increase in export means so much increase in import. Japan is closely related to the sterling areas in respect of both export and import. I am firmly convinced that, if we cooperate with each other on the basis of mutual understanding, we will be able not only to increase the volume of our mutual trade more than ever, but also to make great contributions to a stable development of world economy.

I earnestly request you to convey, through your special number, to all of your readers in the UK and in other countries of the world the true picture of the entire Japanese people engaged in making sincere efforts for the establishment of a stable economy for the sake of the peace and prosperity of the world.

CLOSER ECONOMIC UNDERSTANDING

A message from

Shigesaburo Maeo

(Japanese Minister of International Trade and Industry)

IT is a great pleasure for me to have an opportunity to say a few words on the occasion of the issuing of a Japanese Special Supplement of the EASTERN WORLD.

As is well known, Japan, like the United Kingdom, has to depend on foreign trade for her economic development. Although Japan's foreign trade has not fully been restored to its prewar level, the volume of Japan's foreign trade in 1956 was 2.7 percent of the world total in exports and 3.3 percent in imports, thus occupying the eighth position among the world's countries. The recent rapid growth of Japan's economy has mainly been due to the expansion of her foreign trade. As Japan is short of raw materials and food resources, she has to import 100 percent of her raw cotton, raw wool, rubber and rock phosphate, 95 percent of her crude oil and sugar and 80 percent of her iron ore and salt. Without increasing her imports, Japan cannot expand her economy. And none of these imports is possible except through the medium of foreign currency obtained by means of exports.

Here I must mention the extent to which Japan's foreign trade depends on the Sterling Area. Calculated on

the basis of foreign exchange statistics from September, 1956 to August, 1957, Japan's exports to the Sterling Area totalled £265.6 million which is equivalent to 28.5 percent of Japan's overall exports while her imports from the same area amounted to £328.2 million or 26.7 percent of the total. The Anglo-Japanese Trade Agreement is the basis on which the expansion of Japan—Sterling Area mutual trade has been made possible. It should be noted that Japan has concluded this year a trade agreement with Australia. Our country was Australia's biggest customer for wool last year and our imports from that country amounted to £74.2 million. I sincerely hope that our economic relations with the Commonwealth countries will become closer as the years pass by, through the implementation of these trade agreements.

I should perhaps say a few words here about Japan's policy concerning industrial designs. The Japan Textile Design Centre was established in 1955, and in the following year the Japan Ceramic Design Centre and the Japan Miscellaneous Goods Design Centre came into existence. Before concluding any export contracts of textile goods, Japanese exporters are obliged to bring their designs to the Japan Textile Design Centre for certification that they do not infringe the right of other manufacturers both domestic and abroad. By this method we have succeeded in eliminating causes for possible complaints. The recent trouble over designs was caused by the specification of the designs of packages and trademarks by the buyer, and the manufacturers had acted only on the direction of the buyer and had no fraudulent intentions. However, in order to avoid recurrence of such undesirable incidents, it has been decided that in future when orders are received specifying a trademark or design, such orders will not be accepted unless a reliable document is received from the buyer stating that the trademark or design in question is not the copy of any existing one. It is hoped that by fully utilising the above mentioned devices, the complaints about design piracy by Japanese manufacturers will disappear.

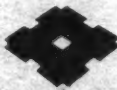
As for the criticism of Japanese labour conditions, I will only mention that Japan has most progressive and complete Labour Laws, which were enlisted after the war, providing for the standard of labour conditions, and the rights of the workers and of the trade unions. The workers in many industries of Japan enjoy excellent working conditions and are frequently housed in the factory, where they have comfortable dormitories complete with every modern amenity.

Japan was admitted into GATT in 1955, and into the UN last year. Now Japan is able to cooperate with other members of international society for the development of the world economy. I believe that the bonds of friendship among the nations can best be strengthened by closer economic cooperation, which in turn depends upon mutual understanding.

I hope that this special edition will promote such understanding.

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Recent Economic Developments in Japan

JAPAN'S postwar recovery has been, so far, remarkably free from hectic events. When appraising the progress Japan made since the Occupation ended in 1952, one has to discount to some extent an always headline-thirsty press which sometimes pictures the country as being at the brink of an economic abyss. However, the steady development taking place in Japan since 1952 can only be interpreted as an achievement of and a compliment to those responsible for the economics of Japan.

During September 1957 Japan's exports, the most important indicator of the country's economic well-being, reached an unprecedented record of \$279,103,000. That was \$20 million above the best postwar month, December 1956. Japan's commercial circles hope that this result will help to surpass the export figures for the financial year 1956-57. The first six months of the current financial year (April 1957 - March 1958) already exceeded the parallel period of the previous year by almost 20 percent. Main exports went to the Dollar Area, i.e. the United States and Canada. These exports amounted to over 700 million dollars during the first half of the current financial year and to 41 percent more than during the same period in 1956-57. Exports to the Sterling Area, too, rose by 18 percent. On the other side, trading with the so-called "Open Account Countries," under Trade Agreements, decreased by 26 percent. This includes Mainland China. Main winners of the recent export rise were chemicals, ships, machinery and textiles.

Meanwhile, trade unions in Japan called for strikes in three of the major industries, steel, shipbuilding and coal mining. Serious and prolonged breakdowns in the national production will probably be prevented by collective bargaining. Some commentators report, however, that wage demands are only a part of the strike motifs. Sohyo, the leftist General Council of Trade Unions, is reported to show its strength this time with a view to forestalling an attempt by the government to rescind, or to restrict parts of the labour legislation at present in force. Mr. Kishi's government has been rather aggressive towards organised labour and intends to introduce changes in the labour law during the forthcoming regular session of the Diet. Sohyo feels that a show of force is indicated to prevent any such tampering with one of the most important results of the Occupation. Moreover, it might well be that the atmosphere of the present export boom is considered as a congenial climate for the pressing of wage demands.

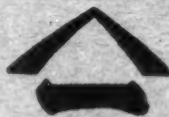
The alertness and the initiative of the Japanese industrialists is reflected from the increasing number of international projects they are dealing with. The Middle East has proved to be particularly responsive to Japanese projects. Negotiations are in progress on a joint Syrian-Japanese manufacture of concrete railway sleepers. A Japanese delegate recently visited Syria on behalf of the Overseas Construction Cooperation Association (Kaigai Kensetsu Kyoryokukai) to investigate the possibility of this project which was reportedly initiated by the Syrian Ministry of Public Works. The project, if and when materialised, would not only produce sleepers for the Syrian Railways, but also for the Hedjaz Railway the reconstruction of which is now under active consideration. In Israel, the Furukawa Mining

Company have examined the prospects for an exploitation of the copper mines of King Solomon at Timnah, north of Elath. The City of Kobe is planning a Japanese Trade Fair in Khartoum to be held for two weeks in January 1958. About 30 firms, operating in Kobe, will show their products. NYK - Nippon Yusen Kaisha - Japan's most important shipping line will provide the shipping space for the exhibits, either via Egypt or directly via Port Suran. A special committee was set up in Tokyo to study Japan's possibilities in helping to build the Aswan High Dam in Egypt. The fact that the former Minister of State, Mr. Tasunosuke Takasaki, was appointed Chairman of this committee, indicates the importance attributed to its work. Last but not least, the oil in the Middle East has also attracted Japanese attention. Japanese companies are reliably reported to finalise at present an agreement with Saudi Arabia providing for oil concessions in the off-shore area bordering the Neutral Zone between Kuwait and Saudi Arabia. Other negotiations concern concessions in the surroundings of Riyadh and near the frontier with Yemen.

The Middle East is not the only object of Japanese economic initiative. Reports from practically all over the world show a concentrated drive for a substantial expansion in trade and other economic activities. Keidanren, the powerful Federation of Economic Organisations, is considering to provide assistance for the development of mines in Portuguese Guinea. Three leading aluminium producers in Japan, Sumitomo, Showa Denka and Japan Light Metal, are forming a joint enterprise with Alcan - the Aluminium Corporation of Canada - and the Swiss-Dutch group of Emile Ott to exploit the bauxite deposits in North Borneo. The recent visit of Prime Minister Nehru to Japan has again stimulated Japanese interest in an international tender for the construction of a steelmill in India. The tender has been issued by the Indian National Railways. Seven Japanese companies have teamed up to submit a consolidated offer.

Despite the decline of foreign trade with Trade Agreement countries, Japan is continuing to show interest in renewing and concluding trade agreements. After 20 months of negotiations, an agreement was now concluded with France and talks have begun with Poland.

With rising exports to the United States closer economic



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ties between Japan and the United States are unavoidable. A significant step in this direction was made when on October 16, the first sale of securities of a privately owned Japanese company in over 25 years was made in New York. The well known Investment Banking House of Dillon, Read & Co., introduced twelve million dollars worth of first mortgage sinking fund bonds of the Alaska Lumber and Pulp Company for sale in the United States. The proceeds of this transaction will finance partly the construction of a modern pulp mill near Sitka in Alaska. The estimated cost of this project is \$55½ million. Further \$7 million will be provided by the sale of additional securities while the balance of \$36 million will be furnished by the Alaska Pulp Company, the Japanese parent corporation. The latter's shareholders

include the leading pulp and paper manufacturers in Japan. Loan capital is supplied by Japanese commercial banks, trust companies and the Export-Import Bank of Japan which also guarantees the payment of principal and interest on the bonds issued in New York. Construction of the mill at Sitka began already a month ago and will be completed in December 1959. Its design calls for the production of 340 tons of high grade pulp daily, mainly to be used for the production of rayon. The mill will be supplied with timber under a contract with the United States Forest Service stipulating the purchase of about 5,250,000,000 board feet of timber from the Tongass National Forest near Sitka. The sales contract was signed on October 15, 1957.

Japan's Foreign Account Crisis

THROUGHOUT 1956 and early 1957 writers on Japanese economic affairs continually repeated the phrase "The greatest year since Jinmu Tenno," meaning that the prosperity of the country, both domestic and in foreign trade, was the greatest in history. During 1955 and 1956 optimism ran high as foreign orders poured in and foreign trade increased despite a gradual but continuing rise in export prices. The volume of foreign orders in fields of industry such as ship construction and machinery was indeed phenomenal and the majority of bankers and businessmen, congratulating themselves on this great prosperity, seemed to feel the boom would never end. They made loans or borrowed heavily for large investments in new plant and equipment, built up raw material inventories, and indulged in a spate of non-essential construction to the extent where corporate investments in expansion increased by 80 percent over the previous year. This necessarily caused an excessively large increase in imports and, while it should have been obvious that the rate of import expansion was not consistent with the increase in exports, at least for a time neither finance nor government seemed to appreciate this fact.

Foreign observers in the main also suffered from the same infectious atmosphere, so that perhaps the authorities were not too greatly to blame for failing to foresee the shoals ahead, although some hints had appeared in occasional papers. A few had warned that the Suez débacle would not redound to the great benefit of Japan as was widely anticipated; that the great profits from trade with Communist China were mainly chimerical, that little immediate expansion in trade could be hoped for in South East Asia. These factors and the possibility of a reduction of United States import purchases, plus the demanded removal of US troops and the concomitant curtailment in US procurement, added to the fact that Japan's productive capacity in essential lines had already reached a temporary limit and could not produce much more for export without heavier imports and internal investment, were certainly factors which did not make for unalloyed optimism, but these factors were generally ignored. However, whatever the reasons, the authorities did not wake up to the grave deterioration in their foreign exchange balances until very late.

During 1956 export receipts had consistently exceeded import payments in all but two months of the year, and

Japan's foreign exchange holdings, which reached a peak of \$1,440 million in May, had thereafter continually maintained a level of about \$1,400 million during the period. Thus even in January 1957 there seemed little to worry about, but the boom of 1956 had carried with it the seeds of the difficulties ahead. The psychology of prosperity caused over-optimistic plant expansion, and a heavy accumulation of inventories, particularly of import materials in anticipation of higher world prices as importers contracted far ahead in large quantities and at extremely high freight rates. Export prices meanwhile steadily increased until it became obvious that a point would be soon reached when Japan would, in certain export goods, price herself out of the world markets, but the extravagances still existed and few efforts were made to curtail buying, to restrict investment and to reduce prices.

Thus when the prices of certain manufactured items reached the point where they were not any longer competitive, and when the inducement of early deliveries was no longer present because of limited productive capacity, new orders dwindled and Japan found that she was committed to pay out large sums for some time ahead, far in excess of actual and anticipated receipts.

By August, when Mr. Ichimada became Minister of Finance and inherited this situation, the facts were glaringly obvious that despite the apparent internal prosperity and the continued increase in the overall volume of foreign trade, all was not well with the foreign exchange account. For instance, while export receipts had increased by 12.7 percent, (one year cumulative) during the period July 1956 to July 1957, import payments also increased, but out of all proportion, by 60.5 percent, and this deterioration of the exchange balance had been going on for some months. The deficits in the balance of payments, both dollar and sterling accounts, had grown progressively up to and including July of this year when the deficit was the second highest for the whole post-war period. The great increase in imports during the past year was the major cause of this severe imbalance which grew from the normal small figure which had obtained from 1955 up to the end of 1956, of about \$14 million, to about \$100 million monthly from July 1957 onwards. The Sterling account similarly deteriorated, and instead of the normal slight balance in Japan's favour, by July there was a deficit of about \$63.8 million. Thus a rapid depletion of Japan's foreign exchange holdings continued through 1957, when

they fell from \$1,420 million in December 1956 to about \$874 million in August 1957.

Here some may feel that even this amount is not too bad for Japan. But if one considers the demands, including payments on international obligations and reparations, and the fact that of this amount actually only \$600 million is liquid, the figure of \$800 million is dangerously close to the limit Japan can stand without a serious curtailment of essential import, a decline in industrial production and a reduction in her standard of living.

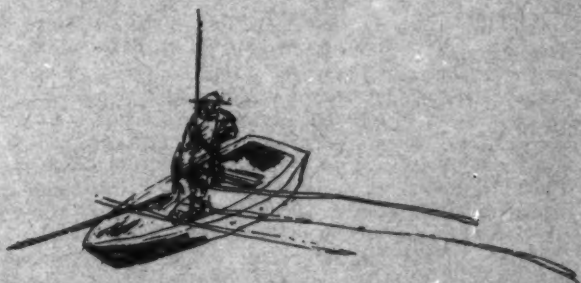
When Mr. Ichimada became Minister of Finance, he faced the unpleasant and difficult problem of how to reverse a trend which had produced an increasing deficit in the balance of payments for every month of the current year. In January 1957 the adverse balance was at a low of \$14 million for the month but by July it was running over \$100 million per month.

It was, then, obvious that stern and drastic measures were required and Mr. Ichimada with his usual perspicacity quickly proceeded to introduce them. First of all the banks were instructed to restrict credit, particularly for unproductive investment purposes; the advance deposit system was increased on most import items and newly applied to others. Self-imposed restrictions on the opening of import letters of credit were instituted by the foreign exchange banks and applied to trading companies. The bank discount rate was raised, and government withdrawals from the foreign exchange banks were accelerated and increased in order to restrict short term foreign credits. These measures soon caused a tightness in money which served to defer investment spending, to encourage savings and to reduce applications for import credits. Export credits were relaxed and import controls strengthened. Furthermore usance terms were shortened and tightened and new usance contracts greatly curtailed. Existing usance agreements were required to be paid off more rapidly, thus reducing the forward drain on foreign exchange, and stringent measures were invoked to prevent any further long term extensions of credit. These factors began to take effect in July when it became noticeable that the volume of imports had fallen off slightly, while a very welcome increase in export letters of credit became apparent. In August the trend was somewhat firmer when exports and imports were approximately in balance, and by September a favourable balance in the trade account was reported for the first time in ten months. Japan's export receipts during September totalled \$289 million (of which \$43 million was US special procurement), while payments for imports equalled \$344 million (\$74 million representing the reduction of deferred payments) so that the actual balance was \$19 million in Japan's favour.

Naturally the strong measures instituted by the Government were not accepted by all with equanimity and there were the inevitable number of complaints and casualties due to the restrictive credit situation, particularly among the small and medium sized enterprises. The number of dishonoured bills reached a new high in July as some smaller firms found themselves in serious difficulties, and the stock market reached a new low for the year and has continued to decline since. But despite these inevitable troubles, it was apparent that the restrictive measures were beginning to work and to take effect. The loans of \$125 million obtained from the International Monetary Fund and \$175 million from the Import-Export Bank, also had an appreciable effect in shoring up the exchange account, while

the tightness in internal funds had its effect upon inventories and wholesale prices, so that it became noticeable in October that Japan's export prices had reversed their former upward trend and were coming closer to world prices, in many cases having reached competitive levels.

There now is considerable optimism that the balance of trade, at least in the concept of equilibrium, will be retained and that the losses in the foreign exchange account may gradually be recovered. To this end, the Government's estimates for 1957/1958 (i.e. to the end of March 1958) envisages export receipts at a total of \$3,685 million, made up of exports, \$2,820 million; US special procurement \$560 million; and invisible trade \$305 million. Import payments are forecast at \$3,565 million, plus invisible payments of \$595 million, which will produce an adverse balance of \$475 million. This deficit, however, will be reduced by about \$85 million by offsetting the decrease in deferred payments against the loans from the IMF and the Export-Import Bank. Thus by April 1958 it is hoped that the adverse balance, which in September 1957 stood at over \$550 million, will have been reduced to \$370 million and foreign exchange holdings will have recovered to a fairly safe position. As has been explained above, the need for a continuing balance in the foreign account of at least \$800 million is considered to be basic, and therefore the further recovery of the lost foreign exchange is the next major effort of the Government. Here there has been considerable argument and squabbling among the factions in the several ministries as to the methods and means to recover this margin and the limits to be put to the new foreign exchange budget. A fairly wide divergence of opinion in estimates of future foreign trade seems to exist, notably between Mr. Kono and Mr. Ichimada,



who have differed on the several factors, but it now appears that for the next fiscal year the total of about \$2,900 million in exports, not including invisibles and US procurement, is to be the target, although JETRO (Japan Export Trade Promotion Association) quotes the Ministry of Trade as calling for a figure of \$3,150 million for exports, (a somewhat exuberant calculation). If Ichimada's export figure is reached, imports reasonably controlled and internal unproductive expansion curtailed, it is very possible that the serious drain on Japan's foreign exchange reserves can be held in check if not actually reversed.

To this end, JETRO has announced a vast export drive supported by various proposed measures. There are to be increased governmental appropriations for foreign trade advertising, for trade fairs, for sales promotion, for additional trade representatives, for the subsidising of research for export items, measures towards improvement of quality, and

somewhat naively, for "elimination of design piracy." Four more overseas trade centres are planned in addition to the present five, and it is reported that Japan will take part in 11 foreign trade fairs this year and will send a second floating fair to central and South America. The intensity of the proposed effort is praiseworthy but all of these plans,

while being foresighted and laudable, must take into consideration the fact that one condition limits the realisation of any outstanding results, namely the worldwide deterioration in dollar and hard currency holdings, because, unless hard currencies are available to Japan's markets there is little hope that exports can be appreciably increased.

BANKING IN JAPAN

By *Sadanobu Oda*

(Chief, Economic Research Dept. The Bank of Japan)

JAPAN underwent a sweeping change during the so-called Meiji Restoration, which began in the year 1868. The old feudal system was replaced by a modern capitalist economy, imported from Europe and America, with modern production techniques and economic systems. The financial system followed suit and was organised on the pattern of banking in foreign countries.

In the early years of the Meiji Era, Japan adopted a national banking system, modelled on that which then existed in the United States. Each national bank issued its own banknotes. But this system soon showed itself to be impractical and was accordingly reorganised on the lines of the British deposit banks. With the establishment of the Bank of Japan in 1882, all note issue rights were gradually concentrated to it. It is now the sole note issuing bank in Japan.

Hand in hand with the expansion of Japanese capitalism, the commercial banks made rapid progress. Today, Japan's largest commercial banking institution ranks thirty-fourth among the 500 largest banks of the free world in size of deposits, according to the magazine *American Banker*. Japan's banking system has become a modern, large-scale operation. This article will attempt to explain in broad outline the activities and organisation of both Japanese commercial banks and of the Bank of Japan, including an historical background of the latter and a summary of its monetary policies recently adopted to cope with balance of payments difficulties.

The total number of banks throughout the country at the end of 1956 was 86, of which two were long-term credit banks, 13 city banks, 65 local banks, and six trust banks.

The two long-term credit banks are the Industrial Bank of Japan and the Long-Term Credit Bank of Japan,* established under the Long-Term Credit Bank Law of 1952. A bank of this kind shall be a joint-stock company with capital of 500 million yen or more, and its establishment subject to license by the Minister of Finance, according to the law.

Long-term credit banks differ primarily from ordinary banks, that is, city banks and local banks, in that they accept deposits only from their borrowers. Accordingly, the principal source of their funds other than their own capital, is the proceeds obtained from debenture issues. A long-term credit bank may issue debentures up to 20 times the total of its capital and reserves.

The thirteen city banks are Mitsui, Dai-ichi, Mitsubishi, Fuji, Sumitomo, Sanwa, Daiwa, Tokai, Kobe, Tokyo, Kyowa, Nippon Kangyo, and Hokkaido Takushoku Banks. As indicated by their names, e.g., "Mitsui Bank," some of these

were, in pre-war years, closely affiliated with trust companies of the same name. The latter, however, are now called trust banks, for instance, "Mitsui Trust Bank." The above-mentioned affiliations, however, were discontinued after the war.

The head offices of the city banks are located in large cities; their branch offices are distributed throughout the country, and totalled 1,742 at the end of March 1957. The city banks conduct their business under the so-called branch banking system, in sharp contrast to the American "unit" banking system."

With a combined total representing 66 percent in deposits, 60 percent in loans and 56 percent in securities holdings (end of 1956), deposits and loans of these city banks greatly outnumber those of all other banks.

The Bank of Tokyo, one of the city banks, is virtually the successor of the former Yokohama Specie Bank and is the only banking institution in Japan based on the Foreign Exchange Special Bank Law. This bank has a worldwide network of branches and holds a leading position with regard to the volume of foreign exchange dealings. Almost all of the city banks and leading local banks, however, carry on foreign exchange business under permission granted by the Foreign Exchange Control Law.

The six trust banks are: Mitsubishi, Sumitomo, Mitsui, Yasuda, Nippon and Dai-ichi. Under the urgent necessities of war-time financing, ordinary banks were permitted, in 1943, to engage concurrently in the business of savings banks and trust companies. On the other hand, in 1948, trust companies, like savings banks, were converted into ordinary banks, combining the former functions of both. They are characterised by the fact that emphasis is still laid on their trust business.

The remaining 65 banks have their head offices mostly in local towns, and the branches also are concentrated in their respective prefectures. These local banks are generally small in scale compared with city banks, and are closely allied with local enterprises.

In general, all banks except long-term credit banks and the Bank of Tokyo, are established under the Bank Law of 1927. Their business corresponds in effect to that of commercial banks and savings banks of Europe and America.

The Japanese banking system has two major features. The first is "the predominance of banks" in the Japanese economy. This is an indication of the fact that the banking system has occupied an extraordinary dominant position over business enterprises. This situation originated from the fact that the banks have been obliged to supply enterprises with long term equipment funds due to the lack of an effective capital market, in addition to their ordinary business

* In April 1957 a third long-term credit bank, the Hypothec Bank of Japan (*Nihon Fudosan Ginko*) was established.

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of supplying short term operating funds. This practice arises from the necessity of the Japanese economy to catch up rapidly with the economic levels of advanced countries, despite scanty accumulation of capital.

The dominating position of banks over business enterprises is thus a reflection of the excessive borrowings by these enterprises from the banks. With the prewar expansion of the Japanese economy, this situation was gradually remedied. The capital structure of Japanese enterprises in 1936 showed 61 percent of funds as own capital and the rest as borrowed capital. As a result of the war, however, this ratio has been completely reversed, showing borrowed capital as 62 percent and own capital as 38 percent at present.

The second major feature is the so-called "over loaned" condition of almost all city banks. As was the case in 1950-53, when business was prosperous and demands for loans were brisk, big city banks were obliged from time to time, by borrowing from the bank of Japan, to lend money beyond their resources.

As already described, Japanese capitalism has had to resort to the credit of banks to a great extent. The banks, therefore, have boldly though irrationally attempted to supplement the shortage of their own capital and deposits by relying upon constant borrowing from the Bank of Japan, which should normally be the source of last resort. In some cases, the ratio of funds borrowed by commercial banks from the Bank of Japan amounts to an excessively high 20 percent of their total employed funds. This is what is meant by the "over loaned" condition of the commercial banks: their loans surpass their own capital and deposits. On the other side of the coin, there exists the "over-borrowed" condition of private enterprises.

This "over loaned" position of the city banks does not allow them to maintain a sufficient amount of reserves; in other words, they are suffering from a low liquidity ratio. But since the promulgation of the Reserve Requirement Law, they have been making strong efforts to remedy this irrational situation.

The Bank of Japan was established on the initiative of the Japanese Government in 1882 to be the central bank of the country. The Bank was modelled after the National Bank of Belgium. It was given a monopoly of note issue, the first actual issue having been made in May, 1885. The Bank was, from the first, made to serve as the fiscal agent of the Government and was entrusted with the receiving and disbursement of Treasury funds and the management of Government bonds.

In pursuance of the objective of its establishment, the Bank exercised its influence to build up a modern credit system by fostering the usage of negotiable credit instruments, encouraging the use of cheques and the settlement of bills and cheques through clearing houses, etc.

In February, 1942, a fundamental change was introduced in the organisation as well as in the functions of the Bank. The old Bank of Japan was reorganised from a joint stock corporation into a special corporation having a capital of 100 million yen, of which the Government contributed 55 million. After the war, in June, 1949, a policy board was created in the Bank, with the duty of deciding all administrative policies of the Bank and all monetary policies relating to the operation of its business, including the fixing and changing of official discount rates and interest rates on loans, etc.

The Governor of the Bank is an ex-officio member of the board, and is at present chairman of the board simultaneously by election. In the post war period the Bank's efforts were directed mainly to the restoration of financial stability and rehabilitation of the war-torn economy.

Transactions of the Bank with financial institutions are made principally in the form of deposits, loans and discounts, and purchase and sale of Government securities. In view of the fact that the Bank extends large amounts in loans to big banks, credit control is effected principally by regulating loans to these banks; this regulation is effected by raising or lowering the money rates and also by moral suasion.

With the promulgation on May 27, 1957 of the law relative to the establishment of a reserve requirement system, actual operation of this system is expected to begin in the not too distant future. The promulgation of this law is significant in that the three principal instruments of central banking credit control—official rate changes, open market operations and reserve requirement changes—have now been made ready.

The management of the Bank of Japan at present is composed of a Governor, a Vice-Governor and eight directors. There are also six auditors and 10 advisors.

The economic progress of Japan in the last year was very remarkable, due to the brisk investment activities of domestic industry. But the country is poor in natural resources, and this excessive investment has brought as its unavoidable sequence difficulties concerning the international balance of payments. Although a \$293 million surplus in the international balance of payments was recorded for 1956, this was a rather sharp dip from the \$494 million surplus registered for the preceding year. Since the beginning of this year the international balance of payments has continued to register an adverse balance month after month, and cumulative deficits for the period January-July 1957 reached \$500 million.

Along with the development described above, there was a conspicuous increase in the volume of commercial bank loans, and the expansion of commercial bank lending for the year 1956 reached 870,300 million yen, which trebled the previous year's record of 283,800 million yen.

In the light of the above-mentioned economic developments, it was decided by the Bank on May 8, 1957 to raise the official discount rates by 0.73 percent p.a. following the previous rise of 0.365 percent on March 20 of this year. In parallel with this raising of official money rates, the Bank, which had for some time been issuing repeated warnings to the commercial banks to curb their loaning activities, and had given guidance to commercial banks in such a way as to restrain their credit from increasing, has recently begun to intensify its guidance of commercial banks for the purpose of having them restrict their own lending by all means.

In addition, the Government, on June 19, 1957 adopted the so-called Emergency Measures for Improvement of International Balance of Payments for the purpose of implementing overall investment restrictions. The current tight money policy is gradually showing effects; imports have begun to show a notable decrease, while exports continue to increase. If the present trend continues, Japan may succeed in balancing its trade by the end of the current fiscal year, March, 1958.

Introduction of Foreign Capital to Japan

By Michio Takuma

(Chief, Foreign Exchange Control Department, Bank of Japan)

The Law Concerning Foreign Investment.

DEPRIVED of much of her wealth during World War II, the acceleration of economic reconstruction and rehabilitation was an exigent problem of Japan. In such circumstances, the Government, while making efforts for promoting accumulation of the domestic capital, enacted the "Law Concerning Foreign Investment" in May 1950 in order to facilitate introduction of foreign capital (including industrial technology) into Japan.

The Law provides that foreign investors who desire to remit abroad in foreign currency the profits of their investment in Japan or the royalties of technological assistance, must, prior to their investment, acquire a validation of the competent Ministers of the Government (the Minister of Finance and other Ministers concerned depending on the nature of investment). In validating such investment, the competent Ministers screen applications on a case by case basis in accordance with the standards stipulated by the Law. Preference is given to cases that (1) will contribute towards the improvement of Japan's international balance of payments or (2) will contribute toward the development of essential industries or public utilities. Once validation is given to foreign investment plans, however, the Law guarantees the aforementioned remittance abroad for a long period. Thus it is intended to facilitate the introduction of foreign capital.

As is generally known, after the occurrence of the international monetary crisis around 1931, practically all nations of the world instituted their own foreign exchange control systems for the purpose of preventing capital flights and foreign exchange speculations. Japan was no exception. She has been obliged to control foreign exchange since July 1932. After the end of World War II, she had to adopt a stricter control in countering the then developed worldwide dollar shortage, and in December 1949, enacted the "Foreign Exchange and Foreign Trade Control Law." This authorizes the Government to control all foreign transactions, including current as well as capital transactions, and foreign currency is compulsorily concentrated into the Government and is distributed on a priority basis.

The "Law Concerning Foreign Investment," which was put into force half a year later than the "Foreign Exchange and Foreign Trade Control Law," is designed to remove strict restrictions imposed by the "Foreign Exchange and Foreign Trade Control Law," from the viewpoint of promoting the introduction of foreign investment. Foreign capital investments validated under the Law, therefore, need no further licence under the "Foreign Exchange and Foreign Trade Law" for remittance abroad in foreign currency. The Law further provides that, in the event of expropriation of foreign capital by the State or local public bodies, remittance of its compensation in foreign currency is guaranteed. It may thus be said that Japan gives foreign investments greater protection than other countries.

While enforcing the strict and overall foreign exchange control on the one hand, the Japanese Government gives particularly preferential treatment to foreign capital on the other. Therefore, it is quite reasonable that foreign investment plans are subjected to screening and deliberations by the Government before they are validated.

It should be added in this connection, however, that the screening under the Law is made only when the foreign investor concerned wishes to obtain a guarantee on the remittance of the principal and fruit of his investment in foreign currency. It does not mean in any way to restrict business activity itself of foreign investors. Thus, even if the Japanese

Government were to be compelled to take a stricter policy for screening under the Law owing to a worsened foreign exchange position, it would not mean that it had reverted to a closed policy for foreign capital.

Record of Foreign Investments Validated.

(1) Technological Assistance

In case a foreign investor assists in technical aid by offering the right to use a patent or know-how in Japan, under terms of contract or period of royalty payment in excess of one year, and the investor wishes to have a guarantee of the remittance abroad in foreign currency of compensation therefore, a previous validation under the Law must be obtained beforehand. (If the term of a contract or payment of compensation is less than one year, such a contract is not subject to the Law, but a permission under the Foreign Exchange Control Law will be required).

The number of the technological assistance contracts validated under the Law reached 673 (by the end of April 1957). Classified by industries, the electric and other machinery industries occupy a majority, numbering 344 (52 percent). The chemical industry represents 150 (22 percent); the metal industry 64 (10 percent); and the spinning and weaving industry 37 (6 percent). These four industrial branches comprise 90 percent of the total.

Classified by nationalities, the United States holds the dominant position, sharing 452 (67 percent), followed by Switzerland sharing 53 (8 percent), West Germany 43 (7 percent), France 23 (4 percent), Britain 22 (3 percent), Italy 20 (3 percent) and Canada 19 (3 percent), all these combined amounting to 95 percent of the total contracts validated.

In attaining the rapid postwar rehabilitation and growth, the Japanese industries owe a great deal to this technological assistance given by foreign countries which have enabled them to fill up the wartime and postwar technological blanks. As is commonly known, however, industrial innovation is now being carried on throughout the world today to such an extent as to bring forth a revolution of the industrial structures in every country. Japan also is making efforts to introduce new techniques for the development of the petro-chemical and synthetic textile industries, for the rationalisation of her iron-steel and chemical fertiliser industries as well as for the manufacture of jet airplanes. Needless to say, foreign techniques must be introduced on a priority basis and in a way most suited for Japan within the scope of her foreign currency holdings. In this sense, Japan is required to give the greatest priority to the induction of quite newly developed techniques in the future. (The Japanese Government announces each quarter a list of different kinds of foreign industrial techniques of which introduction is most desired).

It is often the case that foreign investors demand high royalties for the new industrial techniques they offer, and accordingly introduction of such techniques will have to depend on the current Japanese foreign exchange position. It is thus hoped that foreign investors will give special considerations to the terms of payment for their techniques they offer by taking a wide and long-range view of the development of the Japanese economy.

(2) Acquisition of Claimable Assets Arising from Loans

In case a foreign investor makes a loan in foreign currency to a Japanese enterprise and desires a guarantee of remittance abroad in foreign currency of interest or the principal repaid,

he must obtain beforehand validation under the Law. (The Law does not apply to loans of less than one year or to those concerned with settlement of short-term international commercial transactions. However, a permission is required for them under the Foreign Exchange Control Law).

The validated amounts of claimable assets arising from loans aggregated to \$269 million (by the end of April 1957). According to types of industries, thermal power generation represented \$126 million (47 percent); petroleum \$63 million (23 percent); and machinery \$29 million (11 percent). Loans to these three industries comprised 81 percent of the validated total.

These foreign loans are largely for financing import of machinery and other merchandise by Japanese enterprises in the form of import usance facilities. Typical of such loans are those given to electric power companies relating to the importation of thermal power generators of a large capacity, which occupy approximately half of the validated amount as shown above.

In order to consolidate her economic foundations through the rationalisation and modernisation of industrial equipment and the development of the natural resources, Japan needs a huge amount of capital and materials, and the implementation of these projects is prone to impose heavy pressure on her balance of payments. As a means of modifying such pressure, Japan wants long-term and stable foreign investment. From this viewpoint, Japan desires to obtain a credit from the World Bank and the Export-Import Bank of Washington, for about 20 years at a reasonable rate of interest.

(3) Acquisition of Stocks

In case a foreign investor desires guarantee for the remittance in foreign currency of dividend or sales proceeds of

stocks issued by a Japanese corporation that he may acquire, he must obtain validation under the Law in regard to the acquisition of such stocks, and moreover, payment for them must be made in foreign currency or its equivalent.

The validated amounts of stocks acquired by foreign investors totalled \$49 million (end of April 1957), 70 percent (\$34 million) of which through participation in the management of Japanese enterprises involved, the remainder having been bought in the securities market.

Of the investment for the participation in the management of enterprises, the United States shared \$24 million (71 percent) and Britain \$5 million (15 percent), these two combined comprising as much as 86 percent of the total. A major portion of this represents capital investment by American and British oil interests for the rehabilitation of Japanese oil refineries in the period immediately after the war.

Dividend on stocks acquired with validation under the Law may be remitted in full amount in foreign currency, whereas the remittance in foreign currency of sales proceeds of stocks must be deferred in Japan for two years following the acquisition. After a lapse of two years, however, the investor can make remittance abroad each year of sales proceeds of one-fifth in number of such stocks in subsequent five years.

When a foreign investor desires to obtain validation under the Foreign Investment Law, he must file with the Foreign Investment Section, Foreign Exchange Control Department of the Bank of Japan, an application in a due form to the competent Ministers. The competent Ministers make a decision on the said application, after consulting the Foreign Investment Council (a consultative commission under the Minister of Finance, composed of government officials and civilian representatives).

JAPAN - U.S. TRADE

By Seiichi Sato

(Commercial Counsellor Japanese Embassy, Washington)

IN prewar times the United States represented one of the most important foreign markets for Japanese merchandise, and trade relations between these two countries have further increased in the last decade. The United States is first in rank among Japan's customers, absorbing one fifth of her total exports. In 1956, the value of these exports to the US amounted to \$543 million.

On the other hand, in terms of United States exports, Japan has ranked second or third as a customer among all the nations of the world. Japan, for example, was the leading importer of US agricultural products during the years 1952 through 1955, and in 1956 was second only to the United Kingdom.

The following table shows the general trend of trade in the last five years.

| Japan's imports from US | | Japan's exports to US | |
|-------------------------|-----------|------------------------|--|
| | | (Thousands of Dollars) | |
| 1952 | 768,291 | 229,168 | |
| 1953 | 755,620 | 226,840 | |
| 1954 | 846,941 | 276,744 | |
| 1955 | 772,279 | 449,227 | |
| 1956 | 1,064,540 | 543,306 | |

Among Japanese exports to the United States, textile and marine products, plywood, pottery and porcelains, sewing machines, toys and sundry other goods are the main items. Among the United States' exports to Japan agricultural products (raw cotton, wheat, barley, soya beans, etc.) and materials for industry (oil, coking coal, steel scrap, etc.) are the essential commodities which dominate in terms of value.

As can be seen in the above table, although Japan's exports to the United States are increasing very rapidly year by

year, she is still far from arriving at a balance between exports and imports. Japan bought twice as much from the US as she sold to that country, even in 1956.

The gap between exports and imports has been covered by the US Special Procurements programme in Japan which has played a significant role in Japan's postwar international balance of payments. Special procurement spending in 1956 totalled \$595 million.

In the past, these procurements were made chiefly for the US forces in Japan and UN troops in Korea. However, the demand for goods and services to maintain these forces has fallen off recently. In their place, the purchase of American assistance goods for Korea and other South-East Asian countries has increased, and this aid programme tends now to take up the bulk of procurement purchases in Japan.

As the "dollar shortage" is a serious factor which hinders worldwide economic development, it has been hoped that the United States would take adequate measures to resolve this difficult problem. There are, undoubtedly, different ways of thinking in different cases, but as far as Japan is concerned the promotion of trade, and not aid, is what we would prefer to see as the primary base of United States foreign economic policy.

After the war the Japanese economy made vigorous strides in the fields of heavy and chemical industries. All other factors being equal, the products of these industries might well be able to compete on fair and equal terms with similar products from western countries in the markets of newly developing areas, especially in South-East Asia. They cannot, of course, compete on an equal footing in the domestic markets of western industrialised countries.

Under present conditions, if Japan wants to develop her

exports to the United States, she must rely upon products of the traditional light industries such as textiles, sundry goods and food products. The quality of these products is very much improved, compared with that of prewar times, and they are greatly appreciated by American consumers, but in consequence of the rapid increase of Japanese exports to the US, some segments of American industry complain that they are considerably affected by increased sales of Japanese goods.

It must be stated clearly here that Japan never aims at the destruction of industries in other countries. Should complaints of this nature seem reasonable, Japan is always ready to consider appropriate measures of control. The Government of Japan and the various businesses concerned are now trying to avoid the excessive concentration of exports in specific groups of commodities, to improve quality and to stabilise export prices on a reasonable basis.

Looking to the future, and supposing that these measures have had the effects desired, it is not hard to imagine the level of Japan's exports to the United States reaching a billion dollars yearly, and that without cause for complaint from American industry.

Economic relations between Japan and the United States need not be limited to bilateral arrangements. Japan is also looking to the development of economic relations, especially with Asian countries. Japan's main concern is that the standard of living of her neighbours should go up and her trade with them be thereby expanded.

In this connection, the Government of Japan is now considering an economic cooperation plan the object of which is to release the economic potential of these Asian countries. The main difficulty is, of course, the shortage of capital needed for this purpose, in Japan as well as in other parts of Asia where there are many natural resources which have not been exploited. Japan has a wealth of technique and experience to contribute to their expansion and development. If it were possible to combine these resources and techniques with American capital, the economic development of Asia would move forward rapidly. Resultant business activity would almost of necessity be beneficial not only for the participating countries but also for the development of trade throughout the world.

As suggested above, economic relations between Japan and

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the United States have been moving closer year by year, and this trend will continue in the future, even though there are certain Japanese anxieties that protectionist influences are growing in the US Congress to meet the demands of constituencies.

JAPAN'S TRADE WITH THE UNITED KINGDOM

THE importance of Japan's trade with the Sterling area can be seen from the fact that in 1956 Japanese exports to that area amounted to over 36 percent and Japan's imports from that area to nearly 33 percent of the country's global foreign trade. As the following table shows, Japan had a favourable trade balance with the sterling area with the exception of the years 1953 and 1956.

| | Japan's global trade | | Japan's trade with Sterling area | |
|------|----------------------|---------|----------------------------------|---------|
| | exports | imports | exports | imports |
| 1950 | 820 | 974 | 244 | 222 |
| 1951 | 1,355 | 1,995 | 585 | 454 |
| 1952 | 1,272 | 2,028 | 540 | 502 |
| 1953 | 1,275 | 2,410 | 318 | 603 |
| 1954 | 1,629 | 2,399 | 493 | 433 |
| 1955 | 2,011 | 2,471 | 649 | 600 |
| 1956 | 2,501 | 3,230 | 906 | 1,057 |

(all figures in million US \$)

Within Japan's trade with the Sterling area, the share of her trade with the United Kingdom amounted to 6-7 percent of her total commercial transactions with the Sterling area in 1956. From the following table it can be seen that Japan's trade

with some other countries of the Sterling area was on a much higher scale than that with the UK, a fact which explains difficulties which sometimes arise in Japan — UK trade negotiations.

| | Japan's exports | | Japan's imports | |
|----------------------|------------------------|------|------------------------|------|
| | 1956 | 1957 | 1956 | 1957 |
| | 12 mths. first 3 mths. | | 12 mths. first 3 mths. | |
| Australia | 30.9 | 5.1 | 248.4 | 91.8 |
| Burma | 36.3 | 18.2 | 42.4 | 9.5 |
| Hong Kong | 134.5 | 36.8 | 18.7 | 7.4 |
| India | 105.3 | 35.3 | 103.4 | 31.7 |
| Malaya and Singapore | 77.9 | 20.5 | 138.7 | 39.6 |
| United Kingdom | 63.2 | 12.3 | 66.6 | 27.4 |

(all figures in million US\$)

The recently concluded trade agreement between Japan and Australia is of great importance. It accords most-favoured nation treatment to Japanese exports by Australia and should lead to increased Australian imports from Japan (possibly at some expense of imports from the United Kingdom). Australia has accounted for Japan's largest imports from the Sterling area. Due to a persistent adverse balance of payments during

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the first half of 1957 and the dwindling of official gold and foreign exchange holdings, the Japanese authorities introduced various deflationary measures, and currency allocations for the purchase of raw wool were reduced.

Important trade negotiations between Japan and New Zealand are to start shortly. Japan is very anxious to take active part in the economic development of South-East Asian countries by supplying goods and in some cases capital to that area, an intention which was clearly demonstrated during Nehru's visit to Japan.

In the case of United Kingdom the trade with Japan has developed as follows:

| | 1955 | 1956 | 1957 |
|---------------|-------------------------------|------|------|
| | first nine months of the year | | |
| UK imports | 19.2 | 21.1 | 18.2 |
| UK exports | 9.7 | 14.6 | 24.0 |
| UK re-exports | 0.6 | 2.0 | 0.8 |

(all figures in million £)

The imports during the first nine months of 1957 included fish and fish preparations valued at £5.9 million; fruits and vegetables — £3.3 million; tea — £0.1 million; raw silk — £0.5 million; wood — £1.0 million; wood and cork manufactures — £1.1 million; chemicals — £1.2 million; cotton yarns and woven fabrics — £2.5 million; iron and steel — £0.9 million and non-ferrous base metals — £0.4 million.

UK exports to Japan during the first nine months of 1957 included wool and other animal hair and tops valued at £6.0 million; woollen and worsted yarns and woven fabrics — £3.1 million; non-electric machinery — £3.6 million; electric machinery and apparatus — £0.7 million; road vehicles — £0.8 million; scientific instruments — £0.3 million; chemicals — £1.9 million and beverages — £0.5 million.

There is scope for the development of UK-Japanese economic relations and these possibilities can be classified in three inter-related fields;

(1) in a number of industries there are possibilities of increasing the volume of direct trade between the two countries,

(2) the number of UK manufacturers who have come to an agreement with Japanese factories to produce their goods in Japan is very small compared with that of other western countries. There are many British products the manufacturing of which under license in Japan would be of benefit to the firms concerned and to the national economies of both countries,

(3) in a number of development projects, mainly of a large scale, (particularly in South-East Asia, but also in other areas, including South America) cooperation between British and Japanese interests would open great possibilities beneficial to all parties concerned. Without minimising the existing competition (which prevails between firms of the same industry within the national boundaries as well as between firms of different countries) it is necessary to see that — particularly in the execution of large development projects — cooperation between firms of various countries and not cut-throat competition is the proper answer.

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AMERICA: USA, Canada, Brazil, Argentine.

EUROPE: Switzerland, Germany, Great Britain, Spain.

Swiss Exports to Japan

JAPAN is the third largest Asian market of Switzerland. The value of Swiss trade with Japan during the first nine months of 1957 has already been higher than it was over the whole of 1956. The following table shows this development, and the steady increase in both fields — export and import — is noteworthy.

| | Swiss imports | Swiss exports |
|------------------------|---------------|---------------|
| 1955 | 39.0 | 58.4 |
| 1956 | 49.1 | 67.8 |
| 1957 first nine months | 53.9 | 70.3 |

(all figures in million Swiss Francs)

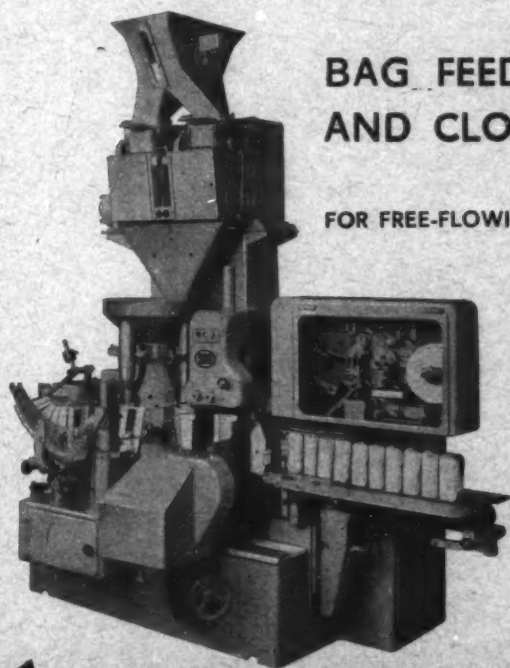
Switzerland's main imports from Japan include silk, wool waste, chemicals, tinned fish, jewellery. Her main exports to Japan include products of her chemical industry (the exports of aniline dyes alone amounted to Sw.Fr.16.7 million in 1956, and to Sw.Fr.11.3 million during the first 9 months of 1957), watches, different products of the machine building industry, precision apparatus, typewriters. Swiss exports of machine tools to Japan reached the value of Sw.Fr.18.4 million (approx. £1.5 million) during the first 9 months of 1957 as against Sw.Fr.10.7 million during the whole of 1956, and the exports of machinery for food industries were valued at Sw.Fr.5.6 million during the whole of 1956 and Sw.Fr.4.9 million during the first 9 months of 1957.

Many Swiss manufacturers have agents in Japan, but there are also Swiss trading firms which are well introduced in this market and have their branch offices there. They represent

manufacturers from Switzerland and other countries and are also active in the field of exports from Japan. In fact, in some cases their export activities from Japan established a good basis for their sales of goods to that country.

A number of Swiss manufacturers have, since the end of the war, signed agreements with Japanese firms on the manufacture of their products under licence in Japan. We understand that these agreements work satisfactorily in most cases and it becomes apparent that this type of economic co-operation between western and Japanese firms has further great possibilities. These technical tie-up agreements also include the manufacturing of high-speed lathes. Japan's machine tool industry has achieved a rapid development during the last ten years and there is no doubt that these agreements signed with US, French and Swiss firms have largely contributed to this development. In the electrical industry Swiss manufacturers have signed agreements for the production of hydraulic turbines and hydraulic generators and transformers, and important licensing agreements were also concluded for the manufacturing of rolling stock and textile machinery. Swiss chemical manufacturers have also concluded a number of such agreements with Japanese firms, amongst others for the production of DDT, sulphathiazole, irgapyrin and irgafen preparations as well as of silicon resin.

(NOTE: Swiss exports to China and Hong Kong reached the value of Sw.Fr.137 million and to India, 124 million during the first nine months of 1957).



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Germany's Increased Trade with Japan

DURING the first eight months of 1957 the trade between West Germany and Japan has more than doubled in value compared with the corresponding period of last year. This is partly due to the Trade Protocol signed in June 1956 and to the import liberalisation policy of the German authorities. Japanese business circles attach great importance to the two-way trade with Germany and many Japanese firms, including Banks, have branch offices in that country. The following table shows the development of Germany's trade with Japan:

| | German Imports | German Exports |
|-------------------------|----------------|----------------|
| 1952 | 74.5 | 92.6 |
| 1953 | 122.0 | 158.6 |
| 1954 | 84.6 | 175.4 |
| 1955 | 90.7 | 169.7 |
| 1956 | 119.8 | 259.4 |
| 1956 first eight months | 71.8 | 141.9 |
| 1957 first eight months | 145.5 | 336.2 |

(all figures in million DM)

The German machine building, electric, chemical and pharmaceutical industries find an important outlet for their products in the Japanese market, and Germany has a favourable balance in her trade with Japan. German exports of machine tools reached the value of DM17.8 million in 1956, and they increased to DM27.4 million during the first seven months of 1957. It must be added, however, that the German machine tool producers have paid great attention to this market and have

taken part in the last Tokyo International Fair. Exports of machinery for textile and leather industries increased from DM12.7 million in 1956 to DM13.3 million during the first seven months of 1957. During that period exports of steel pipes amounted to DM12.9 million, of copper plates and rods to DM34 million, and those of iron scrap to DM10.5 million. The importance of the Japanese market for German precision instrument and optical industries can be seen from the fact that their exports to Japan amounted to DM16 million during 1956. In addition, watches to the value of DM1.7 million were exported to Japan. German chemical and pharmaceutical industries are also very active in the Japanese market. Deliveries of potash and other fertilisers represent an important share in the overall exports to Japan, and the exports of aniline dyes amounted to DM23 million in 1956, and to DM20 million during the first seven months of 1957.

A number of German companies have entered into agreements with leading Japanese manufacturers for the production of their goods under licence in Japan. In the electric industries these agreements include the manufacturing of various kinds of electric appliances (low voltage) and electric power machinery, the production of air blast circuit breakers and transformers. An important agreement covers the building of different types of turbines. In the chemical and allied industries such agreements include the manufacturing of chloram phenicol and parathion as well as cellulose acetate fibres.



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Japan's Trade with Benelux Countries

Belgian trade with Japan shows a considerable increase in 1957, particularly in the field of Belgian exports to Japan. According to the Belgian statistics, the trade between the two countries developed as follows:

| | Belgian imports | Belgian exports |
|---------------------|-----------------|-----------------|
| 1956—first 5 months | 255 | 341 |
| 1957—first 5 months | 336 | 770 |

(all figures in million Belgian francs)

The Netherlands' trade with Japan is also growing:

| | Dutch imports | Dutch exports |
|---------------------|---------------|---------------|
| 1956—first 6 months | 27.6 | 18.3 |
| 1957—first 6 months | 51.1 | 31.2 |

(all figures in million guilders)

Holland's main imports from Japan included cotton, rayon and other synthetic fibre goods, as well as tinned fish. Her principal exports to Japan included animal fats, machinery and parts, sugar and sugar preparations.

Japanese-Italian Trade

During the first 6 months of 1957, Italy's imports from Japan reached the value of 3,380 million lire as against 2,891 million during the corresponding period of last year.

Italian exports to Japan, on the other hand, fell from 4,577 million lire during the first 6 months of 1956 to 2,434 million during the first 6 months of 1957. Thus, while Italy had a favourable trade balance with Japan in 1956, this year the trade balance is in favour of Japan.



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FRANCO-JAPANESE TRADE

During the first 7 months of 1957 French imports from Japan reached the value of Fr.3,784 million as against 2,530 million during the corresponding period of last year.

French exports to Japan show an even greater increase. During the first 7 months they amounted to Fr.5,259 million as against 2,965 million during the corresponding period of last year.

RUBBER FOR JAPAN

In the first half of 1957 Japan imported from Malaya 52,354 tons of rubber as against 74,529 tons during the whole of 1957.

Japanese rubber purchases from Indonesia amounted to 40,873 tons in 1956 and to 13,014 tons during the first six months of 1957.

Ceylon's exports of rubber to Japan amounted to 618 tons in 1956 and to 250 tons in the first half of 1957.

Japan's Trade with Scandinavia

JAPAN'S trade with Scandinavian countries grew considerably in 1957, and leaves Japan with a strong favourable trade balance. In addition to direct exports to Japan, a number of Scandinavian firms have concluded technical tie-up arrangements for the manufacturing of their products by Japanese factories. These agreements include the manufacturing of machinery and apparatus for pulp and paper industry, and in the medicinal field the production of leocillin.

Sweden's exports to Japan during the first seven months of 1957 have already surpassed the value of the exports of the whole of 1956, and the imports from Japan have reached almost the value of those during the whole of 1956. The following table shows the development of trade between the two countries:

| | Swedish imports | Swedish exports |
|----------------------------------|-----------------|-----------------|
| 1955 | 73.4 | 20.7 |
| 1956 | 79.5 | 36.1 |
| 1957 the first seven months | 77.6 | 37.6 |
| (all figures in million Sw. Kr.) | | |

Swedish exports to Japan in 1956 included non-electric machinery valued at Kr.17.5 million, and iron and steel and manufactures thereof valued at Kr.8.7 million. Among Sweden's main imports from Japan were textiles and instruments.

The expansion of Norway's trade with Japan is even more striking. During the first half of 1957 Norwegian exports to Japan reached the value of Kr.23.9 million as against 1.5 million during the corresponding period of last year, while Norway's imports from Japan increased from Kr.7.2 million to Kr.30.3 million during the same periods.

Danish exports to Japan increased from Kr.10.7 million during the first eight months of 1956 to Kr.13.3 million during the corresponding period of 1957. The latter included non-electric machinery valued at Kr.8.6 million; electric machinery and apparatus for Kr.0.8 million; chemical and pharmaceutical products to the amount of Kr.1.0 million.

Denmark's imports from Japan reached the value of Kr.90.8 million during the first months of 1957 as against Kr.8.8 million during the corresponding period of 1956. The 1957 imports included means of transport (including ships) valued at Kr.67.5 million and textiles for Kr.18.4 million.

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